

## Financial Post

# Regulator finds Coventree failed to disclose problems with ABCP market



The Toronto offices of Coventree Capital Group Inc. in 2007.

Bloomberg

**John Greenwood** Sep 28, 2011 – 12:33 PM ET | Last Updated: Sep 28, 2011 3:11 PM ET

Four years after Canada's asset backed commercial paper market froze up leaving holders with huge losses, Ontario securities regulators have [ruled](#) that the company at the centre of the mess along with two of its top executives acted contrary to provincial securities laws by misleading investors.

The Ontario Securities Commission said Coventree Inc., its president Geoffrey Cornish and former chief executive Dean Tai failed to disclose key problems regarding the health of Coventree and the ABCP market.

The Toronto-based boutique investment bank was the largest sponsor of third-party ABCP prior to the financial crisis. The market, worth more than \$35-billion, stopped functioning in September 2007 after worried investors dumped their holdings because of fears that it might contain U.S. sub-prime mortgages.

Following a marathon restructuring nearly two years in the making, the ABCP market was revamped, with investors swapping stalled notes for medium term bonds that currently trade for significantly less than face value. In connection with the restructuring, the banks and brokerages that manufactured the product won protection from any legal claims that might arise from their involvement in the market. Regulators were not affected.

ABCP markets around the world froze up around the same time but Canada was the only country where holders ended up shouldering the losses after banks that agreed to provide emergency liquidity declined to step up. Indeed part of the government bailouts of banks in the United States and Europe were used to pay for ABCP losses.

Critics say sophisticated players involved in the Canadian market were aware of flaws such as weak liquidity agreements and took advantage of them to avoid getting hit with losses.

Back in 2009 a group of banks and investment firms paid \$138-million in penalties in connection with allegations by regulators around their role in the sale and marketing of ABCP.

The OSC charges focus mainly on Coventree’s disclosure to its shareholders after its initial public offering toward the end of 2006. According to the OSC, Coventree failed to alert the market of key events affecting its business plan as well as the broader ABCP market. For instance, in January 2007 it failed to alert the market when it learned of changes at the ratings agency DBRS that would severely impact its business. And over the course of the next few months as concern over the sub-prime mortgage meltdown grew, it failed to advise shareholders of emerging problems in the ABCP market that ultimately led to the freeze up.

The ruling is contained in a 188-page document containing detailed testimony and evidence including company emails submitted during 45 days of hearings that took place last year.

The OSC said penalties for Coventree and the two executives will be considered at a later date.

The regulator said “it is clear... that Coventree and a number of the dealers distributing Coventree-sponsored ABCP from August 1, 2007 to August 13, 2007, had knowledge of liquidity related events and developments that were important to investors considering the purchase of ABCP. It is unlikely that any investor would have purchased Coventree-sponsored ABCP, or any other ABCP, if they had been aware of those market events and developments.”

Paul Le Vay, a lawyer for Mr. Tai, said he’s “disappointed” with the ruling.

“It’s a long decision and we’re still reviewing it and we’re considering options,” he said in an interview. He said one of the options is an appeal to the Ontario Divisional Court.

In a statement Coventree said it is also looking at its options.

Diane Urquhart, an independent analyst who worked for some of the ABCP holders welcomed the finding. “I think it’s a good decision,” she said. “There are still huge continuing losses on the notes so this [finding] is very important.”

Posted in: **FP Street** Tags: **Coventree Inc., Dean Tai, Ontario Securities Commission**

	<p><b>JOHN GREENWOOD</b>  <a href="mailto:jgreenwood@nationalpost.com">jgreenwood@nationalpost.com</a></p>
Banking watchdog boosts scrutiny of consumer loans	
The plunge into panic	
New high-tech banks vulnerable to fraud: Rick Waugh	
Banks should be allowed to fail: Rick Waugh	
New rules a risk to export finance: panel	
MORE FROM JOHN GREENWOOD »	

